

LAKEFIELD DISTRIBUTION INC.

FINANCIAL STATEMENTS

AT DECEMBER 31, 2004

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AUDITORS' REPORT

TO THE BOARD OF DIRECTORS OF LAKEFIELD DISTRIBUTION INC.

We have audited the balance sheet of the Lakefield Distribution Inc. as at December 31, 2004 and the statements of retained earnings, income and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Collins Barrow Kawarthas LLP

Peterborough, Ontario
February 25, 2005

Chartered Accountants

LAKEFIELD DISTRIBUTION INC.

BALANCE SHEET At December 31, 2004

	2004 \$	2003 \$
ASSETS		
CURRENT		
Due from Peterborough Utilities Services Inc. - Note 2	314,761	546,202
Accounts receivable	226,483	213,215
Unbilled revenue on customer accounts	45,000	34,300
	586,244	793,717
PROPERTY, PLANT AND EQUIPMENT - Note 3	1,513,856	1,362,278
REGULATORY ASSETS - Note 4	347,106	268,218
	2,447,206	2,424,213
LIABILITIES AND SHAREHOLDER'S EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued charges	306,993	300,271
Income taxes payable	5,708	75,808
Customer deposits refundable within one year	6,218	4,164
	318,919	380,243
LONG TERM LIABILITIES		
Customer deposits	38,520	26,664
SHAREHOLDER'S EQUITY		
Stated capital - Note 5	1,692,891	1,692,891
Contributed capital	159,007	159,007
Retained earnings	237,869	165,408
	2,089,767	2,017,306
	2,447,206	2,424,213

Approved By The Board,

_____, President

_____, Director

The accompanying notes are an integral part of this financial statement.

LAKEFIELD DISTRIBUTION INC.**STATEMENT OF RETAINED EARNINGS**
For The Year Ended December 31, 2004

	2004 \$	2003 \$
BALANCE , beginning of year	165,408	(4,629)
Net income for the year	122,461	170,037
Dividend paid	(50,000)	-
BALANCE , end of year	237,869	165,408

The accompanying notes are an integral part of this financial statement.

LAKEFIELD DISTRIBUTION INC.**STATEMENT OF INCOME****For The Year Ended December 31, 2004**

	2004 \$	2003 \$
REVENUE - Note 7	532,086	516,127
EXPENSES		
Operations	242,049	177,288
Administration	52,472	68,257
Amortization	79,582	66,567
	374,103	312,112
INCOME FROM OPERATIONS	157,983	204,015
OTHER INCOME (EXPENSE)		
Other income	28,154	34,417
Interest income	32,239	32,345
Interest expense	(2,147)	(1,488)
Other expense - Note 4	(9,213)	(9,213)
	49,033	56,061
INCOME BEFORE PROVISION FOR INCOME TAXES	207,016	260,076
PROVISION FOR INCOME TAXES	84,555	90,039
NET INCOME FOR THE YEAR	122,461	170,037

The accompanying notes are an integral part of this financial statement.

LAKEFIELD DISTRIBUTION INC.**STATEMENT OF CASH FLOWS****For The Year Ended December 31, 2004**

	2004 \$	2003 \$
CASH PROVIDED (USED IN)		
OPERATING ACTIVITIES		
Net income for the year	122,461	170,037
Add: charges in operations not requiring a current cash payment		
Amortization	79,582	66,567
	202,043	236,604
Increase (decrease) in customer deposits	13,910	9,252
Increase in regulatory assets	(78,888)	(29,915)
Net change in non-cash working capital balances related to operations:		
Due from Peterborough Utilities Services Inc.	231,441	(254,181)
Accounts receivable	(13,268)	105,933
Unbilled revenue	(10,700)	(946)
Accounts payable and accrued charges	6,722	(27,594)
Income taxes payable	(70,100)	65,508
	281,160	104,661
FINANCING ACTIVITIES		
Dividends paid on common shares	(50,000)	-
INVESTING ACTIVITIES		
Additions to property, plant and equipment	(231,160)	(117,011)
Proceeds on disposal of equipment	-	11,450
	(231,160)	(105,561)
NET INCREASE (DECREASE) IN CASH DURING THE YEAR	-	(900)
CASH POSITION - BEGINNING OF YEAR	-	900
CASH POSITION - END OF YEAR	-	-
CASH FLOW INFORMATION		
Income tax paid	160,308	29,179
Interest paid	2,147	1,488

The accompanying notes are an integral part of this financial statement.

LAKEFIELD DISTRIBUTION INC.

NOTES TO THE FINANCIAL STATEMENTS For The Year Ended December 31, 2004

NATURE OF ORGANIZATION

Lakefield Distribution Inc. is a regulated electricity distribution company. The Company was formed in 2000 in response to various reorganizational requirements under the provincial government's Electricity Competition Act (Bill 35). Lakefield Distribution Inc. was acquired by Peterborough Distribution Inc. on September 28, 2001 from the Corporation of the Township of Smith-Ennismore-Lakefield. The affiliated companies of Lakefield Distribution Inc. are:

Peterborough Distribution Inc.,
The Peterborough Call Centre Inc.,
Peterborough Utilities Services Inc.,
Peterborough Utilities Inc.,
Asphodel-Norwood Distribution Inc., and
Campbellford/Seymour Electric Generation Inc.

All of the above companies and Lakefield Distribution Inc. are wholly owned by the City of Peterborough Holdings Inc. which, in turn, is wholly owned by the Corporation of the City of Peterborough.

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

These financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada.

Electricity Regulation

The company is subject to rate regulation by the Ontario Energy Board (OEB). The following regulatory policies are practiced in a rate regulated environment.

(a) Regulatory Assets

Regulatory assets consist of market ready costs and retail settlement variance accounts. These costs are deferred for accounting purposes because it is probable that they will be recovered in future rates. Regulatory assets recognized at December 31, 2004 are disclosed in Note 4.

The Company continually assesses the likelihood of the recovery of regulatory assets. If recovery through future rates is no longer considered probable, the amounts would be charged to the results of operations in the period that the assessment is made.

The Minister of Energy has granted approval for distributors to make an application to the OEB with regard to rate recovery of certain distribution regulatory assets. These regulatory assets are expected to be recovered over a four-year period, commencing March 1, 2004. The amount to be recovered will be subject to OEB review and approval.

(b) Corporate Income Taxes

Under the Electricity Act, 1998, the Company is required to make payments in lieu of corporate taxes to Ontario Electricity Financial Corporation (OEFC). The Company provides for payments in lieu of corporate income taxes using the taxes payable method. Under the taxes payable method, no provisions are made for future income taxes as a result of temporary differences between the tax basis of assets and liabilities and their carrying amounts for accounting purposes. When unrecorded future income taxes become payable, it is expected that they will be included in the rates approved by the OEB and recovered from the customers at that time.

LAKEFIELD DISTRIBUTION INC.

NOTES TO THE FINANCIAL STATEMENTS For The Year Ended December 31, 2004

1. SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Revenue Recognition

In accordance with the Ontario Energy Board regulations, the company recognizes as revenue the regulated distribution service charges associated with the distribution of energy.

In addition to the distribution services charges, the customer electricity bills include, transmission charges, non-competitive energy charges, debt retirement and electricity commodity charges. These additional charges are flow through amounts and are not considered as revenue to the Company. The Company acts as a billing and collecting agent for other market participants.

Revenue is recorded using the accrual basis of accounting, as energy is consumed by customers. Unbilled revenue is the estimated distribution revenue earned but not invoiced to customers between the date the meters were last read and the end of the year.

Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as well as the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the year. Actual results could differ from these estimates.

Property, Plant And Equipment

Property, plant and equipment are recorded at cost and include labour, materials, engineering and contracted services.

The cost and related accumulated amortization for identifiable property, plant and equipment, such as substations, remain in the accounts until the assets are retired or disposed of at which time any gain or loss is reflected in operations. Capital assets which are recorded on a group basis, such as meters, are removed from the accounts only at the end of their estimated service lives.

In circumstances where external customers are required to make specific contributions to fund the construction and installation of specific fixed assets, the Company nets the customer contributions against the acquisition cost. Customer contributions in aid of construction received by the Company were \$39,227 (2003 - \$750).

Amortization is provided annually on a basis designed to amortize the assets over their estimated useful lives as follows:

Buildings	40 years straight-line
Substations	23 - 35 years straight-line
Overhead lines	20 - 25 years straight-line
Underground lines	20 - 25 years straight-line
Transformers	17 - 25 years straight-line
Meters	17 - 25 years straight-line

LAKEFIELD DISTRIBUTION INC.

NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS For The Year Ended December 31, 2004

1. SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Customer Deposits

Customers may be required to post security to obtain electricity or other services. Where the security posted is in the form of cash or cash equivalents, these amounts are recorded in the accounts as customer deposits. Interest is paid on customer balances at rates established from time to time by the Company.

2. RELATED PARTY TRANSACTIONS

During the year, the Company engaged in transactions in the normal course of operations with affiliate companies. Professional services and building rent were supplied to Peterborough Utilities Services Inc. for an amount of \$Nil (2003 - \$19,528). Software and equipment rental, professional services and other charges were paid to Peterborough Utilities Services Inc. A summary of these charges is as follows:

Professional services	\$194,544
Capital expenditures	75,077
Operating costs	39,443
Software and equipment rental	18,624

In addition, Peterborough Utilities Services Inc. maintains a bank account on behalf of the related group. Amounts due to each Company are maintained in the accounting records. Interest is accrued as earned. The amount due from Peterborough Utilities Service Inc. at December 31, 2004 consisted of cash of \$314,761 (2003 - \$546,202).

3. PROPERTY, PLANT AND EQUIPMENT

	Cost \$	Accumulated Amortization \$	Net Book Value	
			2004 \$	2003 \$
Land	33,442	-	33,442	33,442
Buildings	64,992	5,281	59,711	61,336
Substation equipment	78,095	10,152	67,943	71,067
Distribution system - overhead	928,468	131,108	797,360	763,376
Distribution system - underground	275,984	32,830	243,154	153,420
Transformers	196,387	29,987	166,400	154,739
Meters	160,833	15,408	145,425	54,322
Work in process	421	-	421	70,576
	1,738,622	224,766	1,513,856	1,362,278

LAKEFIELD DISTRIBUTION INC.

NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS For The Year Ended December 31, 2004

4. REGULATORY ASSETS

The Company has recorded the following regulatory assets.

	2004 \$	2003 \$
Retail settlement variance accounts	366,556	259,981
Deferred transition costs	7,017	7,017
Other	2,357	1,220
Regulatory assets recovered	(28,824)	-
	347,106	268,218

Regulatory assets arise as a result of the rate-setting process as described in Note 1. The Company has also incurred pre-market opening variances of \$26,226 which are not reflected in the regulatory assets due to uncertainty of recovery. In addition, an amount of \$35,769 (2003 - \$26,556) has been provided as an allowance against deferred transition costs. The Company intends to recover these items and all other regulatory assets through future rate applications.

Other operating expenses consist of an allowance for specific transition costs and variance accounts for which there is uncertainty related to their recovery from future rate submissions. Any costs recovered will be recorded in the period in which they are received.

5. STATED CAPITAL

Authorized

- unlimited number of common shares
- unlimited number of preferred shares

Issued

- 1,000 common shares for consideration of \$1,692,891

LAKEFIELD DISTRIBUTION INC.

NOTES TO THE FINANCIAL STATEMENTS For The Year Ended December 31, 2004

6. FINANCIAL INSTRUMENTS

The estimated fair value of the Company's financial assets and liabilities approximates carrying value. Financial assets held by the Company expose it to credit risk. As at December 31, 2004, there are no significant concentrations of credit risk with respect to any class of financial assets. The Company earns its revenue from a broad base of customers. As at December 31, 2004, there were no significant balances of accounts receivable due from any single customer.

7. ELECTRICITY DISTRIBUTION SERVICE CHARGES

	2004 \$	2003 \$
Customer billing for electricity and distribution service charges	2,877,247	2,573,293
Energy	1,610,153	1,326,716
Transmission	344,411	320,076
Non-competitive energy charges	181,224	206,627
Debt retirement charge	209,373	203,747
	2,345,161	2,057,166
Total electricity distribution service charges	532,086	516,127

8. FUTURE INCOME TAXES

The Company has a future income tax asset of \$23,000. This asset is determined by calculating the temporary differences arising from the difference between the tax basis of an asset and its carrying amount on the balance sheet. Future income tax assets are calculated using tax rates anticipated to apply in the periods that the temporary differences are expected to be recovered or settled. This asset has not been recognized in these financial statements.

9. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation.

LAKEFIELD DISTRIBUTION INC.

NOTES TO THE FINANCIAL STATEMENTS For The Year Ended December 31, 2004

10. CONTINGENCIES

(a) The Company participates with other municipal utilities in Ontario in an agreement to exchange reciprocal contracts of indemnity through the Municipal Electric Association Reciprocal Insurance Exchange. Under this agreement, the Company is contingently liable for additional assessments to the extent that premiums collected are not sufficient to cover actual losses, claims and costs experienced.

(b) A class action claiming \$500 million in restitutionary payments plus interest was served on Toronto Hydro on November 18, 1998. The action was initiated against Toronto Hydro Electric Commission as the representative of the Defendant Class consisting of all municipal electric utilities in Ontario which have charged late payment charges on overdue utility bills at any time after April 1, 1981.

The claim is that late payment penalties result in the municipal electrical utilities receiving interest at effective rates in excess of 60% per year, which is illegal under Section 347(1)(b) of the Criminal Code.

The Municipal Electric Association is undertaking the defense of this class action. At this time it is not possible to quantify the effect, if any, on these financial statements.

(c) As a condition of the restructuring of the Peterborough Utilities Commission in 2000, the Corporation of the City of Peterborough advanced funds to the parent of the Company, Peterborough Holdings Inc. All of the Company's assets have been pledged as security provided for the borrowing. The Company has also provided an unlimited guarantee related to the indebtedness of the City of Peterborough Holdings Inc., its subsidiaries and affiliate companies.

During 2002, the company secured financing to provide a \$243,239 letter of guarantee to the Independent Electricity Market Operator. As security, the company provided a general security agreement over the assets of the company. As a condition of the financing arrangement, the shareholder also provided a subordination agreement to the bank which postpones and subordinates its Creditor Security in favour of the bank.

11. AMALGAMATION

Asphodel-Norwood Distribution Inc. and Lakefield Distribution Inc., wholly owned subsidiaries of Peterborough Distribution Inc., were amalgamated with Peterborough Distribution Inc. on December 31, 2004 pursuant to subsection 177(1) of the Business Corporations Act. The issued and outstanding shares of the capital of Asphodel-Norwood Distribution Inc. and Lakefield Distribution Inc. at the date of amalgamation were cancelled without any repayment of capital.